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Pathways from and Crises after Communism: the Case of Central Eastern Europe

Abstract The transition from socialist redistributive economy to capitalist markets has proved to be a rockier road that anticipated. The degree and character of difficulties that the countries faced during the transition depended on the nature of the pathways taken.

In this paper I distinguish three major trajectories various countries followed: Central European neo-liberalism; post USSR neo-patrimonial regime and the East Asian (Chinese and Vietnamese) transformation from below. Rather than distinguishing the "right way" from the "wrong way" I explore what the different costs and benefits of the various pathways were at various stages of the transformation.

Keywords regimes, neo-liberal transition, recession, recovery

Neo-liberal Regimes

The first trajectory follows rather closely the **neo-liberal** economic prescriptions and was mainly adopted by the former non-Soviet European socialist countries. The neo-liberal model of transition implied (i) a market-consistent privatization of the corporate sector, (ii) far reaching deregulation of all aspects of economic life, (iii) the dismantling of the prematurely born welfare state and a (iv) western style, multi-party, competitive political system.

Each pathway I describe in this paper is an ideal type. There are substantial over-time and cross-country variations and there are historic and geographic differences even within each trajectory. So there are many shades and phases within neo-liberalism: Poland is quite different from Hungary, the Czech Republic from Slovakia. The most unusual case of neo-liberalism is Slovenia – it followed, at least initially, a more gradualist approach, especially in terms of privatization (Peternelj 2005; Šušteršič 2004). It opened up to international capital much slower than the other Central European countries, while state owned enterprises were downsized which led to a sharp drop in employment, many firms remained in the possession of their management and workers. Nevertheless, the similarities among the East Central European countries in terms of their transformational trajectory are more pronounced than their differences, if we contrast them with alternative post-communist regimes[1]. If we used the criteria above, the Baltic States (Estonia, Latvia and Lithuania) would also qualify to be neo-liberal, but for historic reasons (their long incorporation into the USSR and short history of independence), their story is quite

[1] Usually 7 countries are labeled this way: Bulgaria, Czech Republic, Hungary, Poland, Slovenia, Slovakia, Slovenia and Romania. I present data from all of these countries.

different, so they are left out from this paper. I also exclude from the current analysis the Western Balkan countries torn by the war (Croatia, Serbia, Bosnia, Montenegro, Macedonia and Albania). They seem to shift slowly, but steadily from the neo-patrimonial to a neo-liberal order, but are not quite there yet by the end of the second decade of transition.

On the neo-liberal trajectory, countries faced the challenges of five socio-economic crises: 1/Due to the shocks of fast deregulation and privatization in the **first transitional crisis** the GDP dropped by some 20% and it took several years before it recovered between 1995 and 2000[2]; 2/ Mass privatization combined with **deindustrialization** led to a sharp decline in labour market participation, reducing it to 50-60%. Labour market participation did not recover even after economies began to grow by the second half of the 1990s; 3/ During the early 21st century the neo-liberal transitional countries faced the **second crisis of transition**: cutbacks and structural reforms of the welfare provisions met political resistance, austerity measures slowed growth, increased national debt and budget deficits; 4/ While these countries were still struggling with the second transitional crisis, they were already hit by the **global financial crisis.** This crisis hit the region particularly strongly, since it had become particularly dependent on international capital; 5/ Finally, as the world was digging itself out of the global financial crisis the former socialist countries of Europe became exposed to the **crisis of the European periphery**, the euro-crisis. I call the first and third crisis as "transitional", since they are specifically related to the transformation from redistributive economies to markets, the other three crises are global phenomena from which the post-communist societies were not isolated, but could have been hit even harder than other economies.

The first two crises came during the early stages of the transition - the last three occurred close to each other by the mid or second half of the second decade.[3]

The First Phase of Neo-liberal Transition (1989–1998): Recession and Recovery

The first phase of neo-liberal transformation can be characterized by a sharp initial drop in the economic output which reached the pre-transition levels during the mid to the late 1990s. First I try to establish the common trends in the whole region and next I will comment briefly on the cross-national differences.

The Big Picture is pretty clear. While commentators anticipated that the transition from redistribution to market economy would have its costs, the costs in real life were far greater than predicted by theory. The drop in GDP was about 20 percent for the Central European neo-liberal regimes (it was even greater in the Baltic States – there it was close to 50 percent – Dragutinovic-Mitrovic and Ivancev, 2010, p.5; EBRD, 2010, p. 58). The economy started to drop in 1990. It bottomed out in 1994 and recovered to the 1989 levels by 2000. Ladányi is correct: this sharp downturn (its extent was similar to the Great Depression of 1929-1933) was driven by two forces: market transition/privatization and deindustrialization.

As Kornai pointed out the socialist redistributive economy was an economy of shortage

[2] Again Slovenia is an exception, it was already on a growth trajectory by 2003 and its transformational recession was the most modest.

[3] I follow János Ladányi (2012) in distinguishing the various post-communist crises. János Kornai wrote for the first time about "transitional recession" (1994). Ladányi identified four crises after the fall of communism in Eastern Europe: the transitional recession was aggravated by the crisis of deindustrialization during the early 1990s. The third crisis took place as transitional economies tried to adapt their welfare system to the logic of the market economy which overlapped in part with the global financial crisis. In this paper I add a fifth crisis, namely the crisis of the European periphery.

(Kornai, 1980). In Central Europe, there was an economy of shortage also in terms of labour: the state owned firms with their soft budget constraint had an insatiable hunger for labour (the story in some parts of Russia and China was different – caused by geographic isolation and overpopulation). Hence, transition to markets, privatization of firms and hardening of budget constraints dramatically reduced the demand for labour. This was particularly dramatic in agriculture. As the collective farms were turned into privately owned (or at least privately managed) businesses, former coop members lost their jobs and income opportunities and the emergent (usually quite large) farms operated with a fraction of the labour the coops used. But the trend was similar in other sectors of the economy as well.

Nevertheless, the demand for labour was also reduced due to the restructuring of the composition of the economy by sectors. Socialism was a strategy of accelerated industrialization, which often followed the patterns of the 19th century economy. While the earlier excessive emphasis on heavy industry (until the 1960s the stated aim of socialism was to create "countries of steel and coal") was moderated during the last decades of socialism, "Department I" – the production of the means of production: to use the Soviet Marxist terminology - was still overgrown, it survived only in a COMECON economy, but was not competitive in capitalist global markets. Deindustrialization what hit so badly Western – especially the US – economy during the 1950s and 1960s came with an even greater vengeance to Central Europe (and to the former USSR – but NOT to China, as I will argue later on).

The bottom line: 20-30 percent of the jobs disappeared in the neo-liberal trajectory to market economy. The unemployment rate is a poor measure of the problem, it peaks 4-19 percent in 1994, but the proportion of those who were employed before the fall of communism and were left out or forced out of work after communism had collapsed is certainly substantially higher. Some quit jobs "voluntarily" (higher class women for instance who needed employment for the second income during socialism, but had much better paid husbands in the market economy, may have decided not to seek employment in a market economy etc). "Excessive" employment in socialist economies – in all social classes- was indeed driven by low earnings and the necessity for most members of the households to earn an income. But many who lost their jobs involuntarily and had no realistic chance to obtain gainful employment again, hence stopped trying, took early retirement, collected disability pension, survive on the underground economy and therefore do not appear on unemployment statistics.

Several countries transferred the "post-communist labour surplus" into the retirement system[4]. The retirement system was already poorly constructed under socialism (it was not an endowed system, de facto it was a pay-as-you-go system) which in a rapidly ageing population - most of the late socialist countries had low fertility and an aging population - was already unsustainable. But post-communist policies with this "transfer of the labour surplus into retirement" scheme aggravated the already unfolding retirement crisis. Such an overloading of the pension system created the impression that post-communist economies inherited an overgrown, prematurely born welfare system and the task was to cut back the "excessive" welfare expenditures (and this created the "third" crisis of post-communist neo-liberalism which will be discussed later) when the social need was for an expansion of welfare provisions (already neglected under socialism). A better measure of the labour market condition is therefore the labour force par-

[4] This was particularly true in Hungary, less so in the Czech Republic or Poland, see Tryggvi Thor Herbertsson and Mike Orszag, 2003, p.11. Average cost of early retirement was about 9% of the potential GDP, in Hungary it was close to 20%

ticipation rate. In this paper I am using the World Bank labour force participation rate, which is the economically active proportion of the total population aged 15+ (OECD uses a different indicator: % of the economically active population aged 15-64). I present data from four out of the seven countries (Bulgaria, Hungary, Poland and Slovakia) where there was a substantial drop in labour force participation rate: 5-7 seven points in just ten years, 1989-1998. Slovenia is an outlier: labour force participation dropped sharply in this country during the early years of the transition to 53%, but by 1994 labour force participation stabilized around a respectable 58-60 percent. I could not find systematic comparative data on labour force participation rates in the socialist epoch in these countries, but those rates are likely to be 20-30% higher even as late as 1980.[5]

This sharp drop in labour force participation is to some extent attributable to the disappearance of industrial jobs (for instance in steel and construction industry, mining, agriculture). People, especially men in their late 40s or 50s not only lost their previously well-paid jobs, but became permanently unemployed, since they could not transfer or covert their earlier skills into useable ones in a post-industrial capitalist economy.

This dual crisis – market transition/privatization and deindustrialization – through the mechanism of job destruction - had devastating consequences for the health conditions of the population and for poverty rates. With the exception of the Czech Republic, life expectancy declined during the first years of the transition and mortality increased especially among middle aged men. Unlike in neo-patrimonial regimes where this proved to be one of the worst and lasting disaster in demographic history (Stuckler, King and McKee, 2009, p. 4) in neo-liberal regimes there was only a moderate mortality adjustment and the mortality trends already reversed by the second half of the 1990s, late 1990s.

The first decade of transition in these regimes was also accompanied by a jump in poverty rates. According to EBRD estimates, the proportion of the population under the poverty line increased almost tenfold in the region between 1989 and 1998 (from 1.4 to 12 percent, EBRD, 2000, p.16), though it was stabilized by the mind 1990s.

In 2000, I collected data with the only retrospective data on poverty going back to 1988 and my findings were similar. Only 1.8% of Bulgarians who were already at least 14 years old in 1988 remembered to have lived in extreme poverty, this jumped to 16.3 % by 2000. The same figures for the other countries: Hungary from 2.5 to 6.8; Poland from 3.1 to 6.2; Romania from 5.1 to 16.3; in Slovakia from 1.1 to 5.0 (Kligman and Szelenyi, 2002)

The neo-liberal transition to capitalism also led to substantial increases in social inequalities (from the high 10s, low 20s to the mid/high 20s[6], low 30s), though in comparison with other pathways from communism the increases in inequalities in general were modest and the Central European countries remained among the more egalitarian systems.

Although the social and economic performance of neo-liberal regimes were disappointing, the social and economic costs of the transition was far worse than predicted even by the more pessimistic economists; in comparison with the neo-patrimonial regimes, the first decade of neo-liberalism is an undisputable success story. The decline of the economy was less steep, the recovery faster (within a decade they reached the pre-transitional levels), poverty was not as

[5] This are the estimates of for Hungary by Maria Augusztinovics, 2005, pp.435-435 and these are consistent with data presented by Kolosi and Robert, 2004, p. 49 and data from the Hungarian Central Statistical Office, 1997, p. 17

[6] Poland is an outlier with GINI in the 30s

widespread and deep and most countries under this regime remained reasonably egalitarian. Neo-liberalism does not fare that well when compared with "transformation from below" - there the only advantage that Central European neo-liberalism has over China – and this advantage is not trivial – is political. The Central European countries by the end of their first decade were all liberal democracies, their system may not have been as liberal, as democratic and as stable as one would have hoped for during the glorious month of 1989.

Bulgaria[7]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
1	-9	-12	-7	-2	2	3	-10	-6	4
Unemployment rate									
Na	2	10	15	16	19	14	13	15	16
Labor force participation rate[8]									
Na	59	58	58	57	56	55	55	54	54
Public debt(% of GDP)									
Na	Na	185	166	172	183	115	319	105	80
GINI[9]									
23.4	Na	Na	30.7	Na	24.3	31.0	Na	26.4	Na
Life expectancy at birth[10]									
71.7	71.6	71.6	71.5	71.4	71.2	71.1	70.9	70.4	71.1

Czech Republic[11]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
1	-1	-12	-1	0	2	6	4	-1	-1
Unemployment rate									
Na	1	4	3	4	4	4	4	4	6
Labor force participation rate[12]									
Na	61	61	62	62	62	61	61	61	61
Public debt(% of GDP)									
Na	Na	Na	Na	19	18	14	12	12	13
GINI[13]									
19.4[14]	Na	Na	Na	26.6	Na	Na	25.8	Na	Na
Life expectancy at birth[15]									
71.7	71.4	71.9	72.3	72.8	73.0	73.1	73.7	73.8	74.5

7 Data from www.ebrd/economicsstatistics
8 % of total population ages 15+ , see www.worldbank.org/indictor/SL.TFL.CACT.ZS
9 Data from Index Mundi, CIA World Fact-book
10 Data from www.google.com/publicdata (from World Bank)
11 Data from www.ebrd/economicsstatistics
12 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
13 Data from www.google.com/publicdata (from World Bank)
14 1988
15 Data from www.google.com/publicdata (from World Bank)

Hungary[16]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
1	-4	-12	-3	-1	3	2	1	5	5
Unemployment rate									
1	1	8	9	12	11	10	10	9	8
Labor force participation rate[17]									
Na	55	54	55	52	51	49	49	48	48
Population below poverty line									
Na	Na	Na	Na	8.6	Na	Na	Na	Na	Na
Public debt (% of GDP)									
Na	Na	75	79	90	86	84	72	64	62
GINI[18]									
21.0[19]	Na	Na	Na	27.9	Na	Na	Na	Na	24.9
Life expectancy at birth[20]									
69.5	69.3	69.4	69.1	69.1	69.5	69.8	70.3	70.7	70.6

Poland[21]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
0	-12	-7	3	4	5	7	6	7	5
Unemployment rate									
Na	7	12	14	16	16	15	13	10	10
Labor force participation rate[22]									
Na	63	62	61	61	60	59	58	57	57
Population below poverty line									
Na	Na	Na	Na	23.8	Na	Na	Na	Na	Na
Public debt(% of GDP)									
Na	95	82	87	89	72	50	44	44	39
GINI[23]									
26.9	Na	Na	26.7	32.3	Na	Na	32.7	Na	32.9
Life expectancy at birth[24]									
71.0	70.9	70.6	71.1	71.6	71.7	71.9	72.3	72.7	73.0

Romania[25]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
-6	-6	-13	-9	2	4	7	4	-6	-5
Unemployment rate									
Na	Na	3	8	10	11	10	7	6	
Labor force participation rate[26]									
Na	59	60	60	61	62	63	64	66	65
Population below poverty line[27]									
Na	Na	Na	Na	Na	21.5	Na	Na	Na	Na
Public debt(% of GDP)									
Na	Na	Na	Na	Na	Na	21	28	16	18
GINI[28]									
23.2	Na	na	25.5	Na	28.2	Na	Na	Na	29.4
Life expectancy at birth[29]									
69.5	69.7	69.8	69.8	69.6	69.5	69.5	69.1	69.0	69.8

16 Data from www.ebrd/economicsstatistics
17 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
18 Data from www.google.com/publicdata (from World Bank)
19 1987
20 Data from www.google.com/publicdata (from World Bank)
21 Data from www.ebrd/economicsstatistics

Slovakia[30]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
1	0	-16	-7	-4	6	6	6	5	4
Unemployment rate									
Na	1	10	10	14	14	13	11	12	13
Labor force participation rate[31]									
Na	66	66	65	63	60	60	60	60	60
Public debt(% of GDP)									
Na	Na	Na	Na	28	25	22	32	34	35
GINI[32]									
19.5[33]	Na	Na	19.5	Na	Na	Na	25.8	Na	Na
Life expectancy at birth[34]									
1.0	70.9	70.9	71.8	72.5	72.3	72.3	72.7	72.7	72.6

Slovenia[35]									
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP annual growth									
Na	na	-8.9	-5.5	2.9	5.3	3.6	3.6	4.9	3.5
Unemployment rate									
Na	na	7.1	na	8.7	8.2	7.2	7.2	7.2	7.6
Labor force participation rate[36]									
Na	53	53	53	53	58	59	58	58	59
Population below poverty line[37]									
Na	na	na	na	13.6	Na	na	14.9	na	na
Public debt(% of GDP)									
Na	na	na	Na	21.1	18.5	16.9	20.3	20.9	21.5
GINI[38]									
23.6[39]	na	na	Na	29.2	Na	na	Na	na	28.4
Life expectancy at birth[40]									
72.7	73.2	73.4	73.3	73.3	73.4	74.0	74.5	74.7	74.8

The cross-national variations within the neo-liberal region are non-trivial, but mostly rather predictable and they have a lot to do with the initial conditions. Bulgaria and Romania

22 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
23 Data from www.google.com/publicdata (from World Bank)
24 Data from www.google.com/publicdata (from World Bank)
25 Data from www.ebrd/economicsstatistics
26 % total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
27 Data from Index Mundi, CIA World Fact-book
28 Data from www.google.com/publicdata (from World Bank)
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30 Data from www.ebrd/economicsstatistics
31 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
32 Data from www.google.com/publicdata (from World Bank)
33 1988
34 Data from www.google.com/publicdata (from World Bank)
35 Data from www.ebrd/economicsstatistics
36 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
36 Data are from Andreja Kavar Vidmar. 2000. Social Exclusion and Poverty in Slovenia. Brussels: Observatoire Social Europeen.
37 Data from Index Mundi, CIA World Fact-book.
38 1987
39 Data from www.google.com/publicdata (from World Bank).
40 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS

were significantly poorer, Romania had the most repressive political system and as a result during the early years they resembled more Russia than the Czech Republic or Poland did both in social, economic and political terms. Slovenia and the Czech Republic were far the most affluent nations. Slovenia had a double advantage: it was rather affluent during socialism and had a great deal of experiences with reforms and this may account for its initial success as much as for its cautious gradualism. The Czech Republic on the other hand did not have the reform traditions of Hungary and Poland, but it had a better pre-communist record in democratic governance, so after all the better performance of the Czech Republic was no surprise. The only slight surprise is the Czech "double dip" by the end of the decade, when Hungary, Poland and Slovakia are already on the recovery the Czech Republic slid back into a mild recession.

The differences between Hungary and Poland deserve more attention, These differences were not that striking during the first decade, but became more pronounced in the second phase of the transformation (which was the cause of so much Angst among Hungarian intellectuals during the past few years), but already by the late 1990s it seemed that Poland was doing something better than Hungary.

One should have anticipated Hungary to lead the pack. Hungary was the most consistently on reform trajectory since the 1960s (it was the "merriest barrack in the socialist camp", it implemented "goulash socialism" and more importantly was ahead of the rest in joining WTO, IMF, introducing monetary reforms and creating legal framework for a market economy); Jaruzelski tried to imitate the reforms of János Kádár[41] during the 1980s with limited success in Poland. And in some respects Hungary remained on the cutting edges during the early years of post-communism. By EBRD measures Hungary was among the most aggressively liberalizing countries and having followed closely the Chicago School cook-book, it was rewarded for its eminent behaviour by being far the most attractive country for foreign investors. So in 1989-1999 the per capita cumulative FDI-inflow into Hungary was 45% higher than in the Czech Republic and 3.5 times higher than in Poland (EBRD, 2000, p.74).

Nevertheless the recession in Poland lasted only for two years, in Hungary it did drag on for four. The recovery was also much more robust in Poland, the growth of GDP in Poland was 5+% after 1994 for five consecutive years, Hungary experienced only one year with 5% growth during the whole period under consideration. According to the scarce data available to us, inequality and poverty grew faster in Poland than in Hungary – a big puzzle: did this happen despite the healthier condition of the economy or was it the reason why the Polish economy performed better? Most likely there are numerous reasons – not only economic, but also social, demographic and political - why the two countries began to diverge despite their similarities and are on sharply different economic growth trajectories by the second decade of the 21st century. Those who like to blame political parties or governments for poor economic performance might be troubled: they may find a lot of similarities in Hungary and Poland and a big difference from the Czech Republic. While in the Czech Republic the democratic system was reasonably consolidated and the former communist parties never regained power, the far right extremist forces were negligible, politics in Hungary and Poland fluctuated wildly between successor parties and right-wing or even extremely right-wing parties in government, each blaming the other for the economic problems.

So I almost randomly picked one "independent variable" to explain the differences between

41 János Kádár was the leader of Hungary 1956-1988 and implemented the most radical and consistent reforms under socialism – with the exceptions of the post 1978 Chinese reforms.

Poland and Hungary. In Poland in 1989–1991, the finance minister Balcerowicz introduced what was at that time seen as brutal monetary liberalization strategy which almost instantly liberalized the banking sector, implemented a new tax system and a currency reform. As a result, the Polish economy was in free fall, unemployment exploded by 1991, but the economy bottomed out within a year. On the other hand, the Poles moved with the privatization of the corporate sector much more cautiously, hence monetary liberalization preceded property reform.

In Hungary, the sequence of reforms was different. The Hungarian government moved more carefully with the monetary reform, but pushed ahead with privatization of the corporate sector, opening up the country to multi-national capital. The "success" of Hungary (being so attractive to multinational capital and "fixing" the property right problem so early) may be the reason for its later "failure". Slovenia is usually cited as the strongest case for against mass privatization and gradualism in the transformation of property relations – and it did indeed rather well during the first decade of the transformation (and started to have some problems during the last years of the second decade).

The second unanticipated cross-national difference in the neo-liberal region is the better performance of Slovakia than the Czech Republic. When Czechoslovakia was breaking up, commentators anticipated the Czech Republic to be the winner and Slovakia to join the "East". Already during the first decade, the received wisdom proved to be wrong. While the economic recession was indeed even more severe in Slovakia than in the Czech Republic, and especially the Slovaks did much worse in terms of unemployment than the Czechs by the second half of the decade, the Czech Republic slid into its second recession, but the Slovak economy took of (and it happened under a political regime – of Vladimir Meciar, prime minister 1994–98 – which in its ideology was rather neo-patrimonial). Hence, there are no easy answers what the sources of success or failure are. The Slovak "miracle" is certainly one of the most puzzling ones.

The Second Phase of Neo-liberal Transition (1999–2010): Take-off and Stagnation[42]

The second decade of neo-liberal transformation is entirely a success story: a basically uninterrupted and rather impressive growth until the Global Financial Crisis, which hit the region rather bad (with the exception of Poland, the only country which sustained positive growth in every year during the first decade of the 21st century).

At least one qualification is needed to this rather excessively optimistic statement. During the first years of the second decade – well before the Global Financial Crisis hit – economic growth tended to be moderated, the previously prominent reduction of sovereign debt at least in some countries was reversed. The Czech Republic, Poland and Hungary began to struggle with their "welfare problem". The regimes were under pressure to implement austerity measures, cut back the expenses on their "prematurely born welfare state". This met political resistance, political mobilization, such as strikes or votes for right-wing populist parties.

During the first half of the second decade, the CEE countries constituted two different "camps": countries which had stronger civil societies (and better social safety nets) - the Czech Republic, Hungary and Poland - began to struggle to implement austerity measures and cutbacks in welfare provisions – hence their growth slowed and their sovereign debt started to climb again. They slid into the "second transitional crisis". While the first transitional crisis was the result of adjustment of the economy to market imperatives, now the second emerges as a

[42] Data in this section are from Index Mundi (World Bank) unless indicated otherwise.

welfare regime consistent with the logic of a market economy had to be invented. In the other three CEE countries either the civil society was too weak to cope with a serious challenge against austerity and/or the welfare provisions of the socialist epoch were too inadequate, so there was no particular reason to defend them.

This "second transitional crisis" was quite forceful only in Hungary (with a rather strong civil society with arguably the greatest stakes in exiting welfare provisions, hence the especially violent resistance of any cutbacks in entitlements) to produce a recession and sustained growth of sovereign debt already before the Global Financial Crisis. The Czechs and the Poles managed to dig themselves out from the downward spiral of the early years, to regain better growth rates and limit budget deficits. The Bulgarians, Romanians and Slovaks had a ball until the Global Crisis came; they were swallowing the capital which found the Czech, Hungarian and Polish economies as becoming far too expensive and they managed to implement cutbacks and keep budget deficits and sovereign debt under control.

The Global Financial Crisis hit almost all neo-liberal regimes hard (only Poland managed to remain in positive fields even in 2009), Romania and Hungary fared the worst, but there was a drop in GDP output and increase of unemployment similar to the rest of EU or the advanced economies of the world in the other CEE countries. Although a recovery was generally under way soon again in 2010-11, the region was hit by the euro-crisis, which is anticipated to slow the growth below 3 percent. According to EBRD estimates,[43] Hungary was already in recession again by the middle of 2012, the Czech Republic may slide into recession and only Poland and Slovakia may grow for more than 2 percent.

Bulgaria											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
2.5	5.0	Na	4.8	4.3	5.3	5.5	6.3	6.2	6.0	-5.0	.2
Unemployment rate											
15	17.7	Na	18	14.3	12.7	11.5	9.6	7.7	6.3	9.1	9.2
Labor force participation rate[44]											
53	52	52	51	50	51	51	53	54	56	55	54
Population below poverty line											
Na	35	12.6	13.4	14.1	Na	Na	Na	Na	21.8	Na	Na
Public debts (% of GDP)[45]											
79	74	66	54	46	41.9	31.9	25.6	10.5	15.2	14,8	16.2
GINI											
Na	Na	34.3	Na	29.2	Na	Na	Na	28.2	Na	Na	Na
Life expectancy at birth											
Na	70.9	71.2	71.5	71.8	71.6	72.0	72.3	72.6	72.8	73.1	73.4

[43] Regional Economic Prospects in EBRD Countries of Operation: May 2012. www.ebrd.com
[44] Data 1999-2003 are from www.ebrd/economicsstatistics
[45] % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS

Czech Republic											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
-.5	2.5	Na	1.5	2.9	3.7	6.1	6.1	6.6	6.0	-4.1	2.3
Unemployment rate											
9	8.7	Na	9.8	9.9	10.6	8.9	8.4	6.6	5.4	8.1	7.1
Labor force participation rate[46]											
61	60	60	60	60	59	59	59	59	59	59	59
Population below poverty line											
Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
Public debts (%of GDP)[47]											
13	18	26	29	30	33.5	25.9	29.1	26.0	26.8	34.0	40.0
GINI											
Na	Na	Na	Na	Na	Na	26.0	Na	Na	Na	Na	Na
Life expectancy at birth											
Na	70.9	71.2	71.5	71.8	71.6	72.0	72.3	72.6	72.8	73.1	73.4

Hungary											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
4.0	5.5	Na	3.2	2.9	3.9	4.1	3.9	1.3	.6	-6.3	1.2
Unemployment rate											
10	9.4	Na	5.8	5.9	5.9	7.2	7.4	7.3	7.8	10.0	10.7
Labor force participation rate[48]											
49	49	49	49	50	50	50	51	50	50	50	51
Population below poverty line											
Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	13.9
Public debts (%of GDP)[49]											
61	54	51	54	58	58.3	58.9	68.6	67.0	68.6	78.0	79.6
GINI											
Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	24.7	Na
Life expectancy at birth											
Na	71.4	71.6	71.9	72.2	72.3	72.4	72.7	72.9	73.2	73.4	74.6

Poland											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
3.8	4.8	Na	1.3	3.7	5.6	3.4	5.8	6.6	4.8	1.7	3.8
Unemployment rate											
12.0	Na	Na	18.1	20.0	19.5	18.2	14.9	12.8	9.8	Na	11.8
Labor force participation rate[50]											
56	56	56	55	55	55	55	54	54	55	55	56
Population below poverty line											
Na	18.4	Na	Na	17.0	Na	Na	Na	Na	Na	Na	Na
Public debts (%of GDP)[51]											
40	37	38	42	47	49.9	47.7	49.0	43.1	45.2	46.4	53.6
GINI											
Na	Na	Na	Na	Na	Na	Na	Na	Na	34.2	Na	Na
Life expectancy at birth											
Na	73.2	73.4	73.7	73.9	74.2	74.7	75.0	75.2	75.4	75.6	75.9

46 Data 1999-2003 are from www.ebrd/economicsstatistics
47 % total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
48 Data 1999-2003 are from www.ebrd/economicsstatistics
49 % of total population ages 15+ , see www.worldbank.org/indicator/SL.TFL.CACT.ZS
50 Data 1999-2003 are from www.ebrd/economicsstatistics
51 % of total population ages 15+ , see www.worldbank.org/indictor/.SL.TFL.CACT.ZS

Romania											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
-4.8	2.2	4.8	4.5	4.9	8.1	4.1	7.7	6.0	7.1	-7.1	-1.3
Unemployment rate											
11.5	Na	9.1	8.3	7.2	6.3	5.9	6.1	4.1	4.4	7.8	8.2
Labor force participation rate[52]											
65	65	63	58	57	57	55	56	56	56	56	56
Population below poverty line											
Na	44.5	Na	28.9	Na	Na	25.0	Na	Na	Na	Na	Na
Public debt (% of GDP)[53]											
24	23	23	24	22	23.6	20.3	21.4	13.0	14.7	24.0	34.8
GINI											
Na	Na	Na	Na	28.8	Na	Na	Na	Na	31.2	Na	Na
Life expectancy at birth											
Na	64.0	70.2	70.4	70.6	71.1	71.4	71.6	71.9	72.2	72.5	73.7

Slovakia											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
1.9	2.2	Na	4.0	3.9	5.3	6.1	8.3	10.4	6.4	-4.7	4.0
Unemployment rate											
20.0	17.0	Na	17.2	15.2	13.1	11.7	10.2	8.4	7.7	11.4	13.5
Labor force participation rate[54]											
60	60	61	60	61	60	60	59	59	59	59	59
Population below poverty line											
Na	Na	Na	21.0	Na	Na	Na	Na	Na	Na	Na	Na
Public debt (%of GDP)[55]											
47	50	49	48	43	46.6	36.9	36.1	35.9	28.7	35.7	41.0
GINI											
Na	Na	Na	Na	Na	Na	26.0	Na	Na	Na	Na	Na
Life expectancy at birth											
Na	73.7	74.0	74.2	74.4	74.2	74.5	74.7	75.0	75.2	75.4	75.6

Slovenia											
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP annual growth											
5.3	4.2	2.9	3.8	2.9	4.4	4.0	5.9	6.9	3.6	-8.0	1.4
Unemployment rate											
7.4	7.2	5.7	6.3	6.7	6.3	6.5	6.0	4.8	4.4	5.9	7.3
Labor force participation rate[56]											
58	58	58	58	57	59	59	59	60	59	59	59
Population below poverty line[57]											
Na	Na	Na	Na	Na	12.9	Na	na	na	12.3	na	na
Public debts (% of GDP)[58]											
22.0	26.3	26.5	27.8	27.2	27.3	26.7	26.4	23.1	21.9	35.3	38.8[50]
GINI											
Na	Na	na	29.2	30.8	31.2	na	na	na	na	na	na
Life expectancy at birth											
75.1	75.4	75.8	76.0	76.9	77.2	77.6	78.1	78.6	78.8	79.0	79.4

52 Data 1999–2003 are from www.ebrd/economicsstatistics
53 % of total population ages 15+, see www.worldbank.org/indictor/.SL.TFL.CACT.ZS
54 Data 1999-2003 are from www.ebrd/economicsstatistics
55 % of total population ages 15+, see www.worldbank.org/indictor/.SL.TFL.CACT.ZS
56 Data are from Index Mundi, CIA Factbook
57 Data 2000-2001 are from General government debt, Slovenia. Statistical Office of the Republic of Slovenia, www.stat.si/eng/indikatorji.asp?ID=28
58 Public debt was 47.6% of the DGP on 2011, Statistical Office of the Republic of Slovenia

The cross-national comparison has two important implications: **1/** Bulgaria and Romania, despite being late bloomers (did experience a sharper downturn than the rest during the first decade and their recovery also started later) during the second decade of the transition, did catch up at least until the Global financial Crisis and the euro-crisis, which hit this countries particularly hard; **2/** Hungary is the worst performer in all indicators during the second decade. We may call the first ten years of the 21st century a "lost decade" for Hungary, it did not only lag behind other neo-liberal countries in economic dynamism, but it has the most severe fiscal problems (far the largest sovereign debt) and high unemployment. Hungary and Slovenia seem to be the only neo-liberal countries in a double dip recession (unless the Czech Republic will follow suite) in response to the euro-crisis. Slovenia did extremely well during the first years of the second decade, but it was hit hard by the Global Financial Crisis and the euro-crisis. And while its sovereign debt is just half of the Hungarian debt, it jumped as the euro-crisis unfolded, so Slovenia surprisingly resembles Hungary the most in 2009–12.

The catch up of Bulgaria and Romania may not be that puzzling. When in 2000 I discussed the Bulgarian drawn out recession with my distinguished Bulgarian colleague, Petar Mitev, he insightfully remarked: "Just wait a little longer. Once Germany bought up the Czech Republic, Slovakia, Hungary and Poland, they will buy up Romania and Bulgaria". There was certainly a kernel of truth in this comment. Bulgaria and Romania joined the EU and that arguably boosted their economies during the second decade, although too rapid integration in the EU and increasing dependence on foreign capital might be the reasons why they proved to be the most vulnerable next to Hungary to the Global Fiscal Crisis and the euro-crisis. In addition, both Bulgaria and Romania hesitated between the neo-patrimonial and neo-liberal trajectories during the first decade of the transformation, but they were striving to join EU and had to adjust their legal and political system to meet EU admission criteria during the first decade of the 21st century.

The Hungarian exceptionalism is a more complicated puzzle. How did Hungary turn into the laggard during the second decade when during the first one only Poland performed better? Hungary was ahead not only of Bulgaria and Romania but also the Czech Republic by the most indicators and broke even with Slovakia. What happened between 1999–2010 and why is Hungary shifting to the Southern periphery of the EU and could be the next in line for sovereign bankruptcy after Greece (or Spain)?

Political parties blame each other: the right-wing government which came to power in 2010 blames its socialist-liberal predecessor for eight years of mismanagement and excessive growth of sovereign debts.[59] The socialist-liberal opposition blames the right-wingers for beginning the "overspending" before the 2002 electoral campaign and for not building on fiscal consolidation achieved during the last year of the socialist-liberal government in 2009. Government policies obviously matter. The miserable performance of the Hungarian economy before the Global Financial Crisis, 2007 and 2008 could be explained at least in part by policy mistakes of the socialist-liberal government. During those years, GDP stagnated in Hungary (grew by 1.3 and .6 percent), while growth rates in the rest of the region for both years were between 6 and 10 percent. But if the socialist government has to take some responsibility for a slow decline and for those two miserable years, the centre-right government which came to power in 2010 cannot be particularly proud of the poor recovery from the Global Fiscal Crisis and the worst

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[59] In 2002 the Socialist Party formed a coalition government with the Liberal Party (SZDSZ); 2010 the centre right FIDESZ won two third majority in parliament and faces new elections only in 2014.

response to the euro-crisis in the whole post-communist world (the other neo-liberal countries only slowed down – the Czech Republic stumbling at the borders of recession – and as we will see neo-patrimonial regimes were not affected at all – as least so far, October 2012 when this paper is written).

Thus, it may be necessary to look deeper than policy errors committed by governments. The only question how "deep" we want to look? János Ladányi (2012) offers an interesting long durée explanation for the unexpected failure of Hungary. While it is usually assumed that the reforms under the Kádár regime were an advantage for the transition epoch, Ladányi takes the opposite view. The Kádár reforms were dead-end streets, they only created what one would call a "homo Kadariensis", which are even less able to adapt to the market conditions (having been socialized in the second economy in agriculture and in other sectors of the economy). Intriguing idea, but 1/ it does not fit well the data from the first decade of the transition, when Hungary benefitted from earlier reforms and Poland did so even more, but the absence of reforms punished Bulgaria and Romania (and to some extent the Czech Republic); **2/** Even the Socialist Party (MSZP) rejects the legacy of Kádár; the centre right party (FIDESZ) which formed government the second time in 2010 seeks political identity with the pre-communist Horthy regime (and arguably implements similar social and economic policies). Can these political forces be "objectively" kadarist, though they reject "subjectively" the Kádár regime as "dictatorship"? I do not find this persuasive.

Nevertheless, I concede that ironically while Hungary might have benefitted from the kadarist reforms during the first decade of the transformation, these advantages – namely the arguably excessively open door to FDI, relatively reasonable social benefits and living standards - backfired during the second decade of post-communism. What are the possible reasons for Hungary's exceptionally poor performance after 2006? **1/**The exceptionally low labour force participation rate (jobs were arguably eliminated due to the Hungarian privatization practice and heavy dependency on FDI – see EEAG 2012. 120.); **2/** strong disappointment and even harsher political resistance against attacks on welfare provisions, which fuelled budget deficit and sovereign debt (living standards were somewhat better in the "merriest barrack", so as the fire after liberalization and privatization turns against the "welfare system", people have more to lose, hence their greater resistance to austerity than in the neighbouring countries); 3/ greater dependence on foreign trade and high levels of foreign currency loans (Hungary was initially more attractive to FDI, since it had a long history of reforms), which made Hungary more vulnerable than most neo-liberal countries to the Global Financial Crisis and the euro-crisis (see EEAG 2012. 115., 125).

Let me conclude with a slight digression. Hungary found itself in a debt-trap by the end of the first decade of the 21st century. Its sovereign debt reached 80 % of the GDP. It is close to EU average and better than the sovereign debt of Southern European countries, but given the poor labour force participation, low productivity and poor prospects for economic growth, even this level of debt brings Hungary close to a danger of sovereign default. In 2002 the Socialist Party won the elections by campaigning for a "regime change for wellbeing" (jóléti rendszerváltás). Those who believe that socialism had a "prematurely born welfare state" which needs to be reduced and which advocated austerity, can blame this program for the unfolding debt crisis. I disagree. After 13 years of declining living standards, the Hungarian society was ready for more attention to "wellbeing" and aggressive state policies to generate jobs (yes Mr. Romney and Obama: state creates jobs!). And it was sensible to borrow during the early years of the 21st century when credit was easily available and interest rates were low. The socialist governments between 2002 and

2010 made serious errors, but not because they wanted to improve wellbeing, but because they went the wrong way about doing it. The borrowed resources were foolishly spent on increasing real income of civil servants and pensioners (it was spent on buying votes) rather than on job creation. While the economy was still growing until 2006, it was not growing as fast as it could have and worst of all it was a growth without jobs. The 80% of sovereign debts would not be a major reason why Hungary is the worst performer during the early years of the third decade of post-communist transition, if labour force participation rate and productivity were comparable to the core EU countries. Hence, the cure for the Hungarian disease (and the key for sustained economic growth in neo-liberal post-communist economies) is a simple one: no more austerity, no cuts in welfare benefits but jobs, jobs, jobs. ❋

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